



QUARTERLY STATEMENT

AS OF JUNE 30, 2007
OF THE CONDITION AND AFFAIRS OF THE

Tennessee Behavioral Health, Inc.

NAIC Group Code	0000	NAIC Company Code	95780	Employer's ID Number	62-1621636
(Current Period)		(Prior Period)			
Organized under the Laws of	Tennessee		State of Domicile or Port of Entry	Tennessee	
Country of Domicile	United States				
Licensed as business type:	Life, Accident & Health [] Property/Casualty [] Dental Service Corporation [] Vision Service Corporation [] Other [] Health Maintenance Organization [] Hospital, Medical & Dental Service or Indemnity [] Is HMO, Federally Qualified? Yes [] No []				
Incorporated/Organized	12/15/1995	Commenced Business	07/01/1996		
Statutory Home Office	222 Second Ave. N. Suite 220		Nashville, TN 37201		
	(Street and Number)		(City or Town, State and Zip Code)		
Main Administrative Office	222 Second Ave. N. Suite 220		Nashville, TN 37201		615-313-4463
	(Street and Number)		(City or Town, State and Zip Code)	(Area Code)	(Telephone Number)
Mail Address	222 Second Ave. N. Suite 220		Nashville, TN 37201		
	(Street and Number or P.O. Box)		(City or Town, State and Zip Code)		
Primary Location of Books and Records	222 Second Ave. N. Suite 220		Nashville, TN 37201		410-953-1643
	(Street and Number)		(City or Town, State and Zip Code)	(Area Code)	(Telephone Number)
Internet Website Address	N/A				
Statutory Statement Contact	Michael Fotinos		410-953-1643		
	(Name)		(Area Code) (Telephone Number) (Extension)		
	mdfotinos@magellanhealth.com		410-953-5205		
	(E-Mail Address)		(Fax Number)		
Policyowner Relations Contact					
	(Street and Number)	(City or Town, State and Zip Code)	(Area Code) (Telephone Number) (Extension)		

OFFICERS

Name	Title	Name	Title
Russell C. Petrella	President	Andrew Mark Cummings	Secretary

OTHER OFFICERS

DIRECTORS OR TRUSTEES

Mark Steven Demilio	Russell C. Petrella
---------------------	---------------------

State of Connecticut
 County of Hartford ss Avon

The officers of this reporting entity being duly sworn, each depose and say that they are the described officers of said reporting entity, and that on the reporting period stated above, all of the herein described assets were the absolute property of the said reporting entity, free and clear from any liens or claims thereon, except as herein stated, and that this statement, together with related exhibits, schedules and explanations therein contained, annexed or referred to, is a full and true statement of all the assets and liabilities and of the condition and affairs of the said reporting entity as of the reporting period stated above, and of its income and deductions therefrom for the period ended, and have been completed in accordance with the NAIC Annual Statement Instructions and Accounting Practices and Procedures manual except to the extent that: (1) state law may differ; or, (2) that state rules or regulations require differences in reporting not related to accounting practices and procedures, according to the best of their information, knowledge and belief, respectively. Furthermore, the scope of this attestation by the described officers also includes the related corresponding electronic filing with the NAIC, when required, that is an exact copy (except for formatting differences due to electronic filing) of the enclosed statement. The electronic filing may be requested by various regulators in lieu of or in addition to the enclosed statement.

Russell C. Petrella President	Andrew Mark Cummings Secretary

Subscribed and sworn to before me this
12 day of October 2007

- a. Is this an original filing? Yes [] No [X]
- b. If no,
 1. State the amendment number
 2. Date filed 10/24/07
 3. Number of pages attached 7

RAYMONDE A. PELLETIER
 NOTARY PUBLIC
 MY COMMISSION EXPIRES AUG. 31, 2008

NOTES TO FINANCIAL STATEMENTS

Note 1 - Summary of Significant Accounting Policies

- A. Accounting Practices – The accompanying financial statements of Tennessee Behavioral Health, Inc. ("TBH" or the "Company") have been prepared in conformity with the National Association of Insurance Commissioners (NAIC) Annual Statement Instructions, the NAIC Accounting Practices and Procedures Manual and the accounting practices prescribed or permitted by the State of Tennessee Department of Commerce and Insurance, which represents a comprehensive basis of accounting other than generally accepted accounting principles (GAAP).
- B. Use of Estimates in the Preparation of the Financial Statements – No significant change.
- C. Accounting Policy – No significant change.

Note 2 - Accounting Changes and Corrections of Errors

- A. Material changes in accounting principles and/or correction of errors - No significant change.

Note 3 - Business Combinations and Goodwill

- A. Statutory Purchase Method - No significant change.
- B. Statutory Merger - No significant change.
- C. Assumption Reinsurance - No significant change.
- D. Impairment Loss - No significant change.

Note 4 - Discontinued Operations

No significant change.

Note 5 - Investments

- A. Mortgage Loan, including Mezzanine Real Estate Loans - No significant change.
- B. Debt Restructuring – No significant change.
- C. Reverse Mortgages – No significant change.
- D. Loan Backed Securities – No significant change.
- E. Repurchase Agreements – No significant change.
- F. Real Estate – No significant change.

Note 6 - Joint Ventures, Partnerships and Limited Liability Companies

- A. Investments in Joint Ventures, Partnerships, and Limited Liability Companies that exceed 10% of the admitted assets of the insurer - No significant change.
- B. Impaired Investments in Joint Ventures, Partnerships, and Limited Liability Companies – No significant change.

Note 7 - Investment Income

- A. Bases, by category of investment income, for excluding (nonadmitting) any investment income due and accrued - No significant change.
- B. The total amount excluded was \$0.

Note 8 - Derivative Instruments

- A. Market risk, credit risk and cash requirements of the derivative - No significant change.
- B. Objectives for using derivatives – No significant change.
- C. Accounting policies for recognizing and measuring derivatives used – No significant change.
- D. Net gain or loss recognized in unrealized gains and losses during the reporting period representing the component of the derivative instruments gain of loss – No significant change.
- E. Net gain or loss recognized in unrealized gains and losses during the reporting period resulting from derivatives that no longer qualify for hedge accounting – No significant change.
- F. Derivatives accounted for as cash flow hedges of a forecasted transaction – No significant change.

Note 9 - Income Taxes

- A. Components of the net deferred tax asset or deferred tax liability – No significant change.
- B. Deferred tax liabilities that are not recognized - No significant change
- C. Components of current income taxes incurred – No significant change.
- D. Significant book to tax adjustments - No significant change
- E.
 1. Amounts, origination dates and expiration dates of operating loss and tax credit carry forward amounts available for tax purposes – No significant change.
 2. Amount of federal income taxes incurred in current year that are available for recoupment in the even of future net loss – No significant change.

NOTES TO FINANCIAL STATEMENTS

F. Consolidated federal income tax

1. For federal income tax reporting purposes, the Company's operations are included in Magellan Health Services, Inc.'s (Magellan's) consolidated federal tax returns. The Company files a separate state income tax return.
2. The Company maintains federal tax sharing arrangements with Magellan. Through these arrangements, Magellan has allocated \$1,067,383 of provision for income tax for the six months ended June 30, 2007. The current arrangement calls for an allocation based on Magellan's effective tax rate before reflecting the allocation and after effecting for permanent differences. This amount is included in the accompanying statement of revenue and expenses. Income taxes receivable and payable are included in due to affiliates in the accompanying statement of liabilities, capital and surplus.

Note 10 - Information Concerning Parent, Subsidiaries and Affiliates

- A. Nature of relationship - The Company is a wholly owned subsidiary of Magellan Behavioral Health, Inc., which is directly owned by Magellan. The company holds no investments in any affiliated companies and makes no guarantees nor does it partake in any undertaking for the benefit of any affiliate.
- B. Description of transactions - No significant change.
- C. Dollar amount of transactions - The Company paid \$8,852,066 in management fees to the parent for the three months ended June 30, 2007.
- D. Amounts due to/from relates parties - Balances as of June 30, 2007
 - a. Due from Magellan - \$43,726
 - b. Due to Advocate - (\$255,787)
 - c. Due to Premier - \$(340,260)
- E. Guarantees or undertakings for benefit of affiliate - No significant change
- F. Material management or service contracts and cost sharing arrangements with related parties - No significant change.
- G. Common ownership or control - No significant change.
- H. No significant change
- I. Investment in SCA that exceeds 10% - No significant change.
- J. Investments in impaired SCA entities - No significant change.
- K. Investment in a foreign insurance subsidiary - No significant change.

Note 11 - Debt

No significant change.

Note 12 - Retirement Plans, Deferred Compensation, Postemployment Benefits and Compensated Absences and Other Postretirement Benefit Plans

- A. Defined Benefit Plan - No significant change.
- B. Defined Contribution Plans - No significant change.
- C. Multiemployer Plan - No significant change.
- D. Consolidated/Holding Company plans - No significant change
- E. Post-employment Benefits and Compensated Absences - No significant change.

Note 13 - Capital and Surplus, Shareholders' Dividend Restrictions and Quasi-Reorganizations

- (1) - (9) No significant change.
- (10) Surplus Notes - No significant change.

Note 14 - Contingencies

- A. Contingent Commitments - No significant change.
- B. Assessments - No significant change.
- C. Gain contingencies - No significant change.
- D. All Other contingencies - No significant change.

Note 15 - Leases

- A. Lessee Operating Lease - No significant change.
- B. Lessor Leases and Leveraged Leases - No significant change.

Note 16 - Information About Financial Instruments With Off-Balance Sheet Risk and Financial Instruments With Concentrations of Credit Risk

No significant change.

Note 17 - Sale, Transfer and Servicing of Financial Assets and Extinguishments of Liabilities

NOTES TO FINANCIAL STATEMENTS

- A. Transfers of Receivables reported as Sales - No significant change.
- B. Transfer and Servicing of Financial Assets - No significant change
- C. Wash Sales - The Company has not engaged in any Wash Sales during the current calendar year.

Note 18 - Gain or Loss to the Reporting Entity from Uninsured Plans and the Uninsured Portion of Partially Insured Plans

- A. ASO Plans - No significant change.
- B. ASC Plans - No significant change.
- C. Medicare of Similarly Structured Cost Based Reimbursement contract - No significant change.

Note 19 - Direct Premium Written/Produced by Managing General Agents/Third Party Administrators

No significant change.

Note 20 - September 11 Events

No significant change.

Note 21 - Other Items

- A. Extraordinary items - No significant change.
- B. Troubled Debt Restructuring: Debtor - No significant change.
- C. Other Disclosures - None
- D. Uncollectible balance for assets covered under SSAP No. 6, SSAP No. 47, and SSAP No. 66 - No significant change
- E. Business Interruption Insurance Recoveries - No significant change.
- F. Additional disclosures for Retirement Plans, Deferred Compensation, Postemployment Benefits and Compensated Absences and Other Postretirement Plans - No significant change.

Note 22 - Events Subsequent

On April 1, 2007, primarily all of the Company's membership in the Middle Grand Region has been reassigned to managed care companies in accordance with the contract awards by TennCare pursuant to its Request for Proposals for the management of the integrated delivery of behavioral and physical medical care to these enrollees.

On June 26, 2007, TDCI approved a Form D Prior Notice of Transaction filing for the distribution of equity in the amount of \$12,500,000. The distribution of equity to the parent company was completed on July 3, 2007.

Note 23 - Reinsurance

- A. Ceded Reinsurance Report - No significant change.
- B. Uncollectible Reinsurance - No significant change
- C. Commutation of Ceded Reinsurance - No significant change.

Note 24 - Retrospectively Rated Contracts & Contracts Subject to Redetermination

- A. Method used by the reporting entity to estimate accrued retrospective premium adjustments - No significant change.
- B. Amount of net premiums that are subject to retrospective rating features - No significant change.

Note 25 - Change in Incurred Losses and Loss Adjustment Expenses

No significant change.

Note 26 - Intercompany Pooling Arrangements

No significant change.

Note 27 - Structured Settlements

No significant change.

Note 28 - Health Care Receivables

- A. Pharmaceutical Rebate Receivables - No significant change.
- B. Risk Sharing Receivables - No significant change.

Note 29 - Participating Policies

NOTES TO FINANCIAL STATEMENTS

- A. Relative percentage of participating insurance - No significant change.
- B. Method of accounting for policyholder dividends – No significant change
- C. Amount of dividends – No significant change.
- D. Amount of any additional income allocated to participating policyholders – No significant change.

Note 30 - Premium Deficiency Reserves

No significant change.

Note 31 - Anticipated Salvage and Subrogation

No significant change.

GENERAL INTERROGATORIES

(Responses to these interrogatories should be based on changes that have occurred since the prior year end unless otherwise noted.)

**PART 1 - COMMON INTERROGATORIES
GENERAL**

- 1.1 Did the reporting entity experience any material transactions requiring the filing of Disclosure of Material Transactions with the State of Domicile, as required by the Model Act? Yes ☐ No ☒
- 1.2 If yes, has the report been filed with the domiciliary state? Yes ☐ No ☐
- 2.1 Has any change been made during the year of this statement in the charter, by-laws, articles of incorporation, or deed of settlement of the reporting entity? Yes ☐ No ☒
- 2.2 If yes, date of change:
If not previously filed, furnish herewith a certified copy of the instrument as amended.
3. Have there been any substantial changes in the organizational chart since the prior quarter end? Yes ☐ No ☒
If yes, complete the Schedule Y - Part 1 - organizational chart.
- 4.1 Has the reporting entity been a party to a merger or consolidation during the period covered by this statement? Yes ☐ No ☒
- 4.2 If yes, provide the name of entity, NAIC Company Code, and state of domicile (use two letter state abbreviation) for any entity that has ceased to exist as a result of the merger or consolidation.

1	2	3
Name of Entity	NAIC Company Code	State of Domicile

5. If the reporting entity is subject to a management agreement, including third-party administrator(s), managing general agent(s), attorney-in-fact, or similar agreement, have there been any significant changes regarding the terms of the agreement or principals involved? Yes ☐ No ☒ NA ☐
If yes, attach an explanation.
- 6.1 State as of what date the latest financial examination of the reporting entity was made or is being made. 06/30/2006
- 6.2 State the as of date that the latest financial examination report became available from either the state of domicile or the reporting entity. This date should be the date of the examined balance sheet and not the date the report was completed or released. 06/30/2006
- 6.3 State as of what date the latest financial examination report became available to other states or the public from either the state of domicile or the reporting entity. This is the release date or completion date of the examination report and not the date of the examination (balance sheet date). 04/20/2007
- 6.4 By what department or departments?
Tennessee Department of Commerce and Insurance.
- 7.1 Has this reporting entity had any Certificates of Authority, licenses or registrations (including corporate registration, if applicable) suspended or revoked by any governmental entity during the reporting period? Yes ☐ No ☒
- 7.2 If yes, give full information:
.....
- 8.1 Is the company a subsidiary of a bank holding company regulated by the Federal Reserve Board? Yes ☐ No ☒
- 8.2 If response to 8.1 is yes, please identify the name of the bank holding company.
.....
- 8.3 Is the company affiliated with one or more banks, thrifts or securities firms? Yes ☐ No ☒
- 8.4 If response to 8.3 is yes, please provide below the names and location (city and state of the main office) of any affiliates regulated by a federal regulatory services agency [i.e. the Federal Reserve Board (FRB), the Office of the Comptroller of the Currency (OCC), the Office of Thrift Supervision (OTS), the Federal Deposit Insurance Corporation (FDIC) and the Securities Exchange Commission (SEC)] and identify the affiliate's primary federal regulator.]

1	2	3	4	5	6	7
Affiliate Name	Location (City, State)	FRB	OCC	OTS	FDIC	SEC

GENERAL INTERROGATORIES

- 9.1 Are the senior officers (principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions) of the reporting entity subject to a code of ethics, which includes the following standards?..... Yes ☒ No ☐
- (a) Honest and ethical conduct, including the ethical handling of actual or apparent conflicts of interest between personal and professional relationships;
- (b) Full, fair, accurate, timely and understandable disclosure in the periodic reports required to be filed by the reporting entity;
- (c) Compliance with applicable governmental laws, rules and regulations;
- (d) The prompt internal reporting of violations to an appropriate person or persons identified in the code; and
- (e) Accountability for adherence to the code.
- 9.11 If the response to 9.1 is No, please explain:
- 9.2 Has the code of ethics for senior managers been amended?..... Yes ☐ No ☒
- 9.21 If the response to 9.2 is Yes, provide information related to amendment(s).
- 9.3 Have any provisions of the code of ethics been waived for any of the specified officers?..... Yes ☐ No ☒
- 9.31 If the response to 9.3 is Yes, provide the nature of any waiver(s).

FINANCIAL

- 10.1 Does the reporting entity report any amounts due from parent, subsidiaries or affiliates on Page 2 of this statement?..... Yes ☐ No ☒
- 10.2 If yes, indicate any amounts receivable from parent included in the Page 2 amount:..... \$

INVESTMENT

- 11.1 Has there been any change in the reporting entity's own preferred or common stock? Yes ☐ No ☒
- 11.2 If yes, explain:
- 12.1 Were any of the stocks, bonds, or other assets of the reporting entity loaned, placed under option agreement, or otherwise made available for use by another person? (Exclude securities under securities lending agreements.) Yes ☐ No ☒
- 12.2 If yes, give full and complete information relating thereto:
13. Amount of real estate and mortgages held in other invested assets in Schedule BA: \$
14. Amount of real estate and mortgages held in short-term investments: \$
- 15.1 Does the reporting entity have any investments in parent, subsidiaries and affiliates? Yes ☐ No ☒
- 15.2 If yes, please complete the following:

	1	2
	Prior Year-End Book/Adjusted Carrying Value	Current Quarter Book/Adjusted Carrying Value
15.21 Bonds	\$	\$
15.22 Preferred Stock	\$	\$
15.23 Common Stock	\$	\$
15.24 Short-Term Investments	\$	\$
15.25 Mortgage Loans on Real Estate	\$	\$
15.26 All Other	\$	\$
15.27 Total Investment in Parent, Subsidiaries and Affiliates (Subtotal Lines 15.21 to 15.26)	\$0	\$0
15.28 Total Investment in Parent included in Lines 15.21 to 15.26 above	\$	\$

- 16.1 Has the reporting entity entered into any hedging transactions reported on Schedule DB? Yes ☐ No ☒
- 16.2 If yes, has a comprehensive description of the hedging program been made available to the domiciliary state? Yes ☐ No ☐
If no, attach a description with this statement.

GENERAL INTERROGATORIES

17. Excluding items in Schedule E, real estate, mortgage loans and investments held physically in the reporting entity's offices, vaults or safety deposit boxes, were all stocks, bonds and other securities, owned throughout the current year held pursuant to a custodial agreement with a qualified bank or trust company in accordance with Part 1 - General, Section IV.H - Custodial or Safekeeping Agreements of the NAIC Financial Condition Examiners Handbook?

Yes ☐ No ☒

- 17.1 For all agreements that comply with the requirements of the NAIC Financial Condition Examiners Handbook, complete the following:

1 Name of Custodian(s)	2 Custodian Address

- 17.2 For all agreements that do not comply with the requirements of the NAIC Financial Condition Examiners Handbook, provide the name, location and a complete explanation:

1 Name(s)	2 Location(s)	3 Complete Explanation(s)

- 17.3 Have there been any changes, including name changes in the custodian(s) identified in 17.1 during the current quarter?

Yes ☐ No ☒

- 17.4 If yes, give full and complete information relating thereto:

1 Old Custodian	2 New Custodian	3 Date of Change	4 Reason

- 17.5 Identify all investment advisors, brokers/dealers or individuals acting on behalf of broker/dealers that have access to the investment accounts, handle securities and have authority to make investments on behalf of the reporting entity:

1 Central Registration Depository	2 Name(s)	3 Address

- 18.1 Have all the filing requirements of the *Purposes and Procedures Manual* of the NAIC Securities Valuation Office been followed?

Yes ☒ No ☐

- 18.2 If no, list exceptions: